2000

Alberta Forest Industry Supply and Service Sector Study

Understanding Alberta's -Business...
and Industry Sector needs
for the 21st Century

October 2000

Produced by:
PRICEWATERHOUSECOOPERS

Sponsored by:

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Alberta Forest Industry Supply & Service Sector Survey

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Executive Summary

At a glance, Alberta's Forest Industry Supply and Service Sector is relatively mature with companies having a presence in Alberta for almost 25 years and supplying to the forest industry for almost the same duration. The Sector is comprised mainly of small to medium sized enterprises (SMEs) having 100 employees or less. Pulp, newsprint, lumber and panelboard wood product sectors are the target customers, however the secondary and tertiary wood manufacturing sectors are gaining attention as a customer base. Approximately 50% of the companies earned greater than $10 million in 1999 gross annual sales, with 30% noting $1-$5 million in 1999 gross annual sales. Companies derived 33% of their 1999 gross annual sales from the forest industry of which only 66% was derived from the Alberta marketplace. Alberta Forest Industry Supply and Service Sector does not survive solely on the Alberta forest industry markets, and generates considerable revenue from non-Alberta forestry markets.

Generally, the Alberta Forest Industry Supply and Service Sector is optimistic about the next three years. Most companies surveyed believe that there is good growth potential for both domestic and export sales. This favourable sentiment is further supported with 62% of the surveyed companies expecting positive Alberta labour markets, and 59% anticipating lower corporate tax rates. Companies surveyed on their investment within a three-year horizon revealed a high level of certainty in applying some form of Internet-based business function, where 69% of the companies noted their intentions to improve their E-business capabilities. Given this reliance on technology, it comes as no surprise that 78% of the companies intend to acquire new computer technologies. The purchase of new capital equipment and the development of new technologies are foreseen by more than 76% of the companies and 71% of the companies, respectively. The positive vision contributed to interest in human resource investments; where 93% of the companies intend to build on their employee's skills through training, and 86% of the companies intend to hire additional staff. Almost 62% of the surveyed participants indicate an intention to complete capital improvements. Most of the companies appear to have the capability to finance these improvements out of cash-flow and through family relations and only 23% intend to approach a chartered bank for their venture capital needs.

Casting a shadow on the bright future is the belief that competition from imports will intensify, and that rising material costs will affect the sector's competitiveness. Moreover, the availability of skilled labour is expected to deteriorate over the next three years.

Currently 67% Alberta companies export to Western Canadian destinations, however their desired future export markets focus more on the United States, Eastern Canada, South America, and Asia. Although many companies (64%) rely mainly on their own personal contacts to gather domestic and international market intelligence, Industry Associations are more relied upon in facilitating market intelligence than provincial and federal government sources.

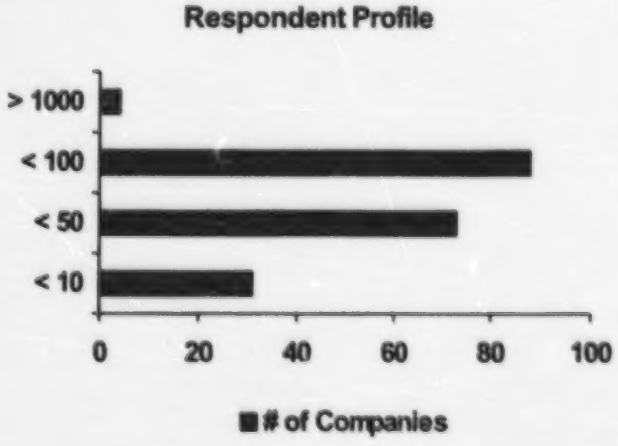
The analysis that follows is a semi-detailed overview of the survey results.

Profile of Respondents

The Alberta Forest Industry Supply and Service Sector that was surveyed consisted of companies that provide an array of goods and services to the forest products industry. Many of the surveyed companies (approximately 85%) were members of the Forest Industry Suppliers & Logging Association. The survey excluded utility and power suppliers, and logging and log hauling companies. In total, 127 companies from Alberta participated in the 2000 Alberta Forest Industry Supply and Service Sector Study, representing a response rate of 58%. Based on the survey findings, the Alberta forestry supply and service sector is relatively mature with companies having a physical presence in Alberta for almost 25 years, and supplying to Alberta's forest products industry for 24 years.

By Sector

The majority of responding companies were construction, distribution or supplies and services. By various sectors, 36 firms were in construction, 21 were in distribution, 19 were in forestry supplies and services, and 14 were in manufacturing and fabrication. In addition, there were 23 firms that described their business as engineering, consulting, business or environmental services.



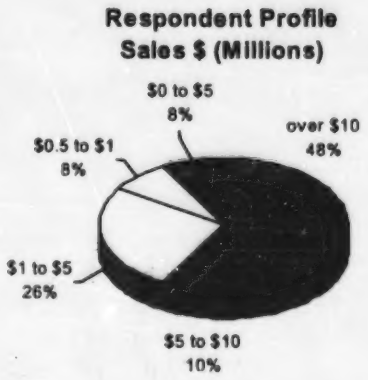
By Size of Employment

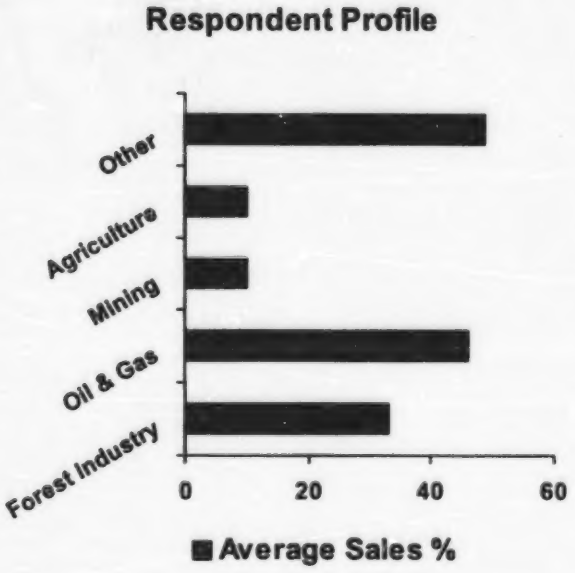
The companies who responded to the survey were mainly small and medium-sized firms, with 96% operating enterprises with 100 employees or less. Just 4% of respondents have 1000 or more employees

Profile of Respondents (Continued)

By Annual Sales

Approximately 48% of survey respondents are companies with annual sales of greater than $10 million. The remaining respondents include 10% with sales between $5 and $10 million, 26% with sales between $1 and $5 million, and 16% with sales less than $1 million.





By Industry Sales

Many suppliers maintain a diverse marketplace. Companies that supply to the forest products industry average 33% of their sales to that sector. Suppliers to the oil and gas industry average 46%. Whereas suppliers to mining and agriculture industries average just 10% of their sales to each of these two sectors. Respondents also indicate that between 34% and 43% of their sales are destined to various other sectors.

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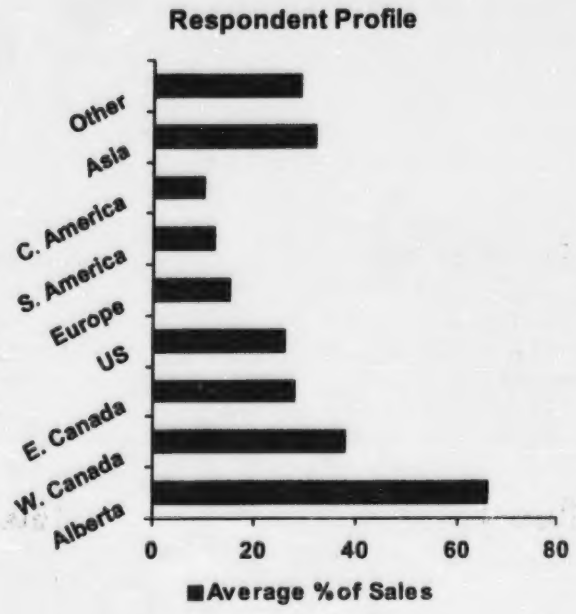
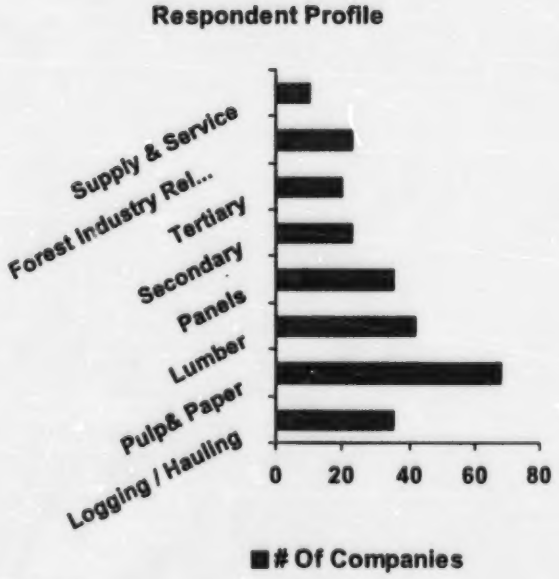
Profile of Respondents (Continued)



By Sales Destination

The companies provided information regarding the destination of their 1999 sales to the forest products industry. An average of 66% of total sales was made within Alberta. Western Canada was the destination for an average of 38% of the companies' sales, whereas Eastern Canada accounted for an average of 28% of total sales. Interestingly, 32% of 1999 gross forestry revenues were derived from the Asia marketplace. The US surprisingly was slightly lower than Asia with an average of 26% of their total sales destined for that market.



By Target Customers

Almost 86% of the companies reported that the forest industry is a focus of their sales efforts. There were 45 companies that consider the forest industry supplier and contractors as sales targets. Key primary wood product markets for suppliers include; pulp and newsprint at 53%, lumber at 33%, and panelboard at 28%. The secondary wood manufacturers garner the sales efforts of 18% of the companies. The tertiary wood products sector receive attention from 18% of the forestry supply and service sector.

Profile of Respondents (Continued)

By Marketing Channels

The companies provided information concerning the use of various marketing channels. According to 114 firms, the use of personal contacts is by far the most favourable and effective means to market their supplies and services.

Category of Marketing Channels	Use of marketing Channels by Companies (%)
Personal Contact	92
Internet Website	62
Trade Shows	51
Industry Magazines	45
Industry Directories	39
Agents or Sales Reps.	38
Mail-outs (letters, brochures, pamphlets	37
Branch Office	31
Seminars and Workshops	27
Professional Journals	21
Newspapers	16
Tele-marketing (potential client calls)	16
Foreign Partner / Joint Venture	14
Other	12
Radio / Television Ads	7
Trade Missions	7

By Sales and Marketing Intelligence

Consistent with their preferred means for marketing, almost 80% of the companies indicated that personal contacts was the predominant source of new business opportunities.

Sources of Business Opportunities	Preference of Source for Business Opportunities by Companies (%)
Personal Contacts and Invitations	78
Referrals	61
Registering or Qualifying for a Company's Preferred Bidder list	35
Newspaper Tender and Proposal Notices	27
Internet Websites, any specific	26
MERX	18
AED Website	18
Other	10

Profile of Respondents (Continued)

By Market Intelligence

Companies appeared to rely mainly on their own sources to gather domestic and international market intelligence. However, Industry Associations were seen as fairly valuable in providing market intelligence. The Alberta Government and Federal Government were also fairly heavily relied upon for market intelligence. Company regional agents were viewed as another important source for gathering market intelligence, where the Canadian Embassies were the least relied on for market intelligence.

Information Sources of Market Intelligence	Use of Sources by Companies (%)
Personal Research	64
Industry Associations	45
Alberta Government	29
Canadian Government	21
Regional Agents	19
Other	14
Canadian Embassies	10

By Regional Sales and Shipping Destinations

North America is the dominant destination of choice for the Alberta supply and service sector with 67% of companies identifying sales to Western Canada, 29% of companies with sales to Eastern Canada, and 26% of companies with sales to the U.S. However, there is a notable investment in more distant global markets with 10% of companies shipping supplies or service to Asia Pacific, Europe, and South America.

Current Destinations	Sales and Shipment Destinations by Companies (%)
Western Canada (BC, Sask, and Man.)	67
Eastern Canada (Ont, Que, NB, NS, Nfld, PEI)	29
United States	26
Europe	10
Asia Pacific (Thailand, Malaysia, Indonesia, Singapore, Japan, Korea, China, Philippines)	10
S. America (Argentina, Uruguay, Chile, Brazil)	10
Australia / New Zealand	7
Central America (Mexico, Venezuela, Caribbean)	8
Other	2

Outlook for Business

Beyond Alberta Market Destinations

Forty three percent (43%) of the Alberta forest industry supply and service sector reported that their ambitions for future market growth were predominantly in Western Canada. Approximately 27% of companies intend to increase their shipments to Eastern Canada, while 33% of companies have growth intentions in the U.S. South America is a sales focus for 14% of the companies.

Anticipated Future Market Destinations	Future Market Destination Investments by Companies (%)
Western Canada (BC, Sask, and Man.)	43
United States	33
Eastern Canada (Ont, Que, NB, NS, Nfld, PEI)	27
S. America (Argentina, Uruguay, Chile, Brazil)	14
Asia Pacific (Thailand, Malaysia, Indonesia, Singapore, Japan, Korea, China, Philippines)	10
Australia / New Zealand	7
Europe	6
Other	6
Central America (Mexico, Venezuela, Caribbean)	5

What Market Intelligence is in Demand?

The respondents identified the type of market intelligence and information sources that would assist them in pursuing their current and future export market objectives. Many companies (31%) identified the need to know government and business contacts to achieve their international market and export objectives. Approximately 27% of companies need to know market trends and capital project opportunities. Information concerning regulatory policies was the focus of only 12% of companies.

Type of Market Intelligence and Information Desirable to Achieve International Market and Export Objectives	Preference by Companies (%)
Government and / or Business Contacts	31
Capital Project / Opportunities	27
Market Trends (Practice, Price, Place)	27
Regulatory Policies (Tariffs, Permits, etc.)	12
Other	10

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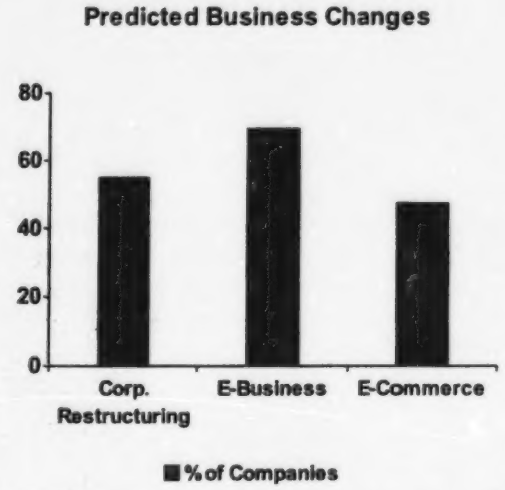
Technology, Innovation & Investment

Over the Next Three Years...

Improving the Business

The survey participants offered information on company strategies to grow and improve their business over the next three years. Approximately 50% of companies predict a corporate restructuring of some nature. There were 69% of companies that intend to improve their E-business capabilities, and 47% of companies will make improvements to their E-commerce capabilities.*



*Corporate Restructuring includes merger, acquisition, joint venture, partnership or strategic alliance. E-commerce includes on-line money transactions, whereas E-business does not include on-line money transactions.

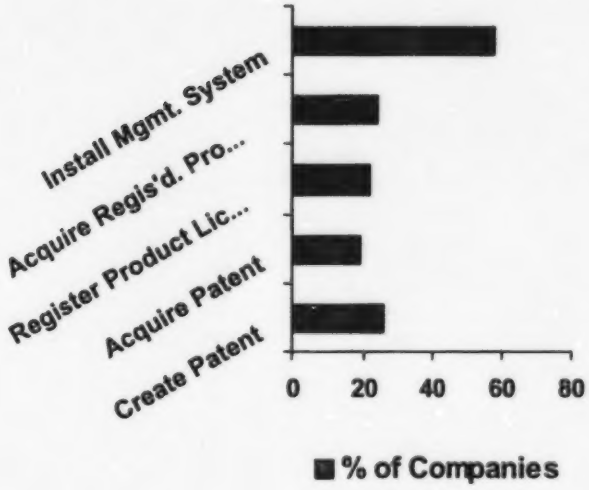
Enhancing Business Tools

The survey respondents provided information regarding the types of investments that they intend to make over the next 3 years. Approximately 93% of companies intend to invest in product or service improvement and staff / personnel training. Hiring skilled labour was identified by 86% of company respondents, while acquiring new computing capabilities was identified by 78%. The purchase of new capital equipment and development of new technologies was identified by 77% and 71% of companies respectively.

Technology, Innovation & Investment

Over the Next Three Years...(Cont'd)

Product Development



Commercialization / Quality Control Intentions

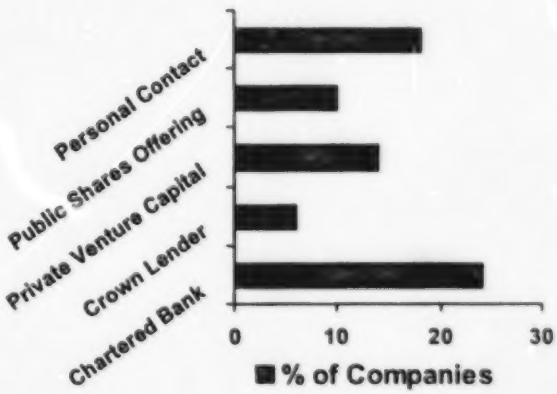
Very few of the participants intend to undertake product commercialization activities in the next three years. Some 26% of the companies intend to apply for a product patent, whereas 24% will acquire a registered product license. Only 23% of participants will register their own product license, and 19% of participants will purchase a patented product.

More than 56% of companies intend to improve their current system of quality control by installing new management systems such as ISO and CSA, or through their own methods.

Capital Improvements

Sixty-two percent (62%) of the companies indicated that they intend to undertake capital expansion or growth initiatives. Relatively few companies, however, intend to approach commercial lenders. Approximately 24% of companies will approach a chartered bank, whereas 18% will rely on personal contacts and family for financing. Only 14% of companies intend to deal with private venture capital firms, and 10% of companies plan to go through a public offering. Crown lending institutions, like the Business Development Bank of Canada, will garner the attention of just 6% of companies.

Sources of Capital



Improving & Deteriorating Business Conditions
Over the Next Three Years...

Overall Alberta forest industry supply and service companies expect business conditions to improve rather than deteriorate over the next three years. Major concerns of forest industry suppliers include; higher cost of materials, increased domestic and international competition, and a decline in the availability of skilled labour. Alberta forest industry suppliers hold most positive, the expectations of reduced corporate taxes, improved labour relations, and greater international market opportunities over the next three-year business horizon.

Category	% Expecting Improvement	% Expecting Deterioration
Corporate Taxes	59	27
Federal Government Business Services	32	40
Provincial Government Business Services	53	26
Access to R & D	42	9
Federal Regulatory Government	43	37
Provincial Regulatory Government	50	30
Trade Tariffs / Barriers	42	26
Trade Tariffs / Barriers (Other Countries)	27	22
Custom Rules / Operations	38	21
Labour Relations	62	13
Availability of Skilled Labour	30	58
Export Capabilities	49	9
Competition from Canadian Firms	29	56
Competition from Non-Canadian Firms	22	61
Cost of Materials	17	62
Transportation Infrastructure	42	38
Market Opportunities outside Canada	65	8
Market Opportunities inside Canada	78	11
Availability of Domestic Financing	42	11
Availability of International Trade	26	4

Notable Responses
on Business Development Services

Despite the existence of the WIN Exports as a readily availability international marketing tool, few companies have utilized its service. Conversely, many companies (52%) noted knowing of the National Research Council's Industrial Research Assistance Program (IRAP), with 19% of the companies having pursued assistance through IRAP. Of the 69 companies that applied for IRAP assistance approximately 10 were successful. Since there are numerous factors affecting a company's application to IRAP, this response merely implies that the service is available and is working for those companies that qualify.

1) a. Are you registered with WIN Exports (Canadian Exporters Database)?

# Yes	% of Companies
23	19

b. If no, then would you like to be registered with WIN Exports?

# Yes	% of Companies
14	11

2) a. Are you aware of the National Research Council's Industrial Research and Assistance Program for small and medium sized enterprises?

% Yes	% No
52	37

b. If no, then would you like additional information?

# Yes	# No
25	18

3) a. Has your company ever pursued or applied for Research and Development funding or assistance?

% Yes	% No
19	69

b. If Yes, were you successful?

% Yes	% No
15	1

Conclusions

As it is the intent of this study to revise, revisit, and otherwise improve business services and programs for the Alberta Forest Industry Supply and Service Sector, it will therefore be incumbent upon the Partners of this study including relevant associations and government agencies to glean from this survey the primary and priority business needs of the sector and act on them.

What are the Business Needs of Alberta's Forest Industry Supply and Service Sector?

The main *concerns* of the sector are predominantly the *needs* of the sector, and addressing these needs ought to receive some priority in the design of sector assistance initiatives. Increased competition from domestic and international firms, rising cost of materials, and a decline in the availability skilled labour are the major concerns among companies over the next three years. Sample means of addressing these needs might involve:

- Addressing trade mobility, apprenticeship programs, extension training and post-secondary education programming to effect the forest industry supply and service sector.
- Arranging for group packages or bulk sourcing aimed at lowing fixed operational cost (i.e. utilities, fuel, freight forwarding…etc).
- Strengthening Alberta companies and helping them improve their individual global competitiveness through corporate taxes, efficient infrastructure, marketing services…etc.

Equally worthy of attention will be to ensure the maintenance and improvement of the current favourable business environment factors such as: labour relations, corporate tax rates, government regulatory regime and availability of Business assistance services.

Industry concerns and threats should not be the only criteria in the development of business assistance initiatives. Based on the survey results, there exist other very important needs of the forest industry supply and service sector. For instance, 56% of the companies surveyed intended to implement and / or invest in some type of formal or informal quality control system. Relatively few companies knew of existing business services such as WIN Exports and IRAP, so there exists a need to better educate companies on such available programs. Desired or preferred market destinations as expressed by company respondents should also receive some priority in terms of business assistance programs. Western Canada, Eastern Canada, United States, and to a lesser degree Latin American and Asia constitute the primary export market interests of forest industry suppliers, particularly key government and business contacts, capital projects and product market trends.

How and Who can best Assist Alberta's Forest Industry Supply and Service Sector with their Business Needs?

Supply and service companies rely a great deal on their own personal contacts and regional representatives for much of their marketing activities and gathering of market intelligence. Secondary for most suppliers was the use of Industry or Trade Associations as an important source for obtaining market intelligence. The Alberta and Canadian governments are also a source of important business services. Behind the use of personal contacts is the use of internet websites, trade shows, and industry magazines as the most favourable marketing channels utilized by the forestry supply sector to market their supplies and services. Forestry suppliers viewed trade missions as the least effective marketing channel. It is apparent that Industry Associations and both levels of government ought to provide a more collaborative and cooperative effort in the development and delivery of business assistance services.

Perhaps the simplest and most immediate action to take on the survey findings is to provide the industry sector with better information on WIN Exports, IRAP, and other existing business services. Short-term (6 months to 1 year) initiatives might entail the development or delivery of seminars related to E-business systems, and business service directories. Moderate-term (8 months – 2 years) initiatives should focus more on developing or creating mechanisms to deal with the market concerns/needs of this sector, such as, facilitating skilled labour development, maintaining and enhancing business environment, and researching and gathering key business and government contacts for the desired or preferred market regions. In addition, there needs to be some investment to providing Alberta companies that "competitive jump" by obtaining and deriving "ground breaking" capital project news, as opposed to "after-the-fact" or "in –the-news" project notices.

In general, to improve overall business services to the forest industry supply and service sector Industry Associations, Governments, and relevant stakeholders need to work more closely together. Furthermore, keeping abreast of the needs of the sector will be vital to the successful delivery of business services over the long-term.